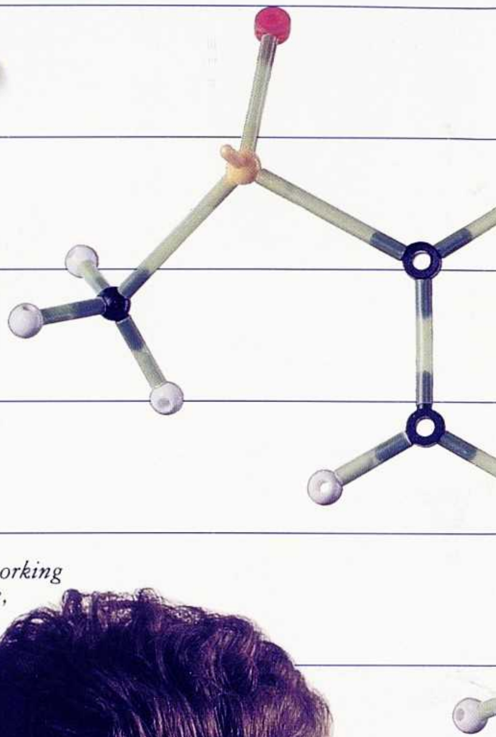
THE BOOTS COMPANY PLC *Report and Accounts 1988*

FOR THE YEAR ENDED 31st MARCH 1988

Pursuing growth through developments

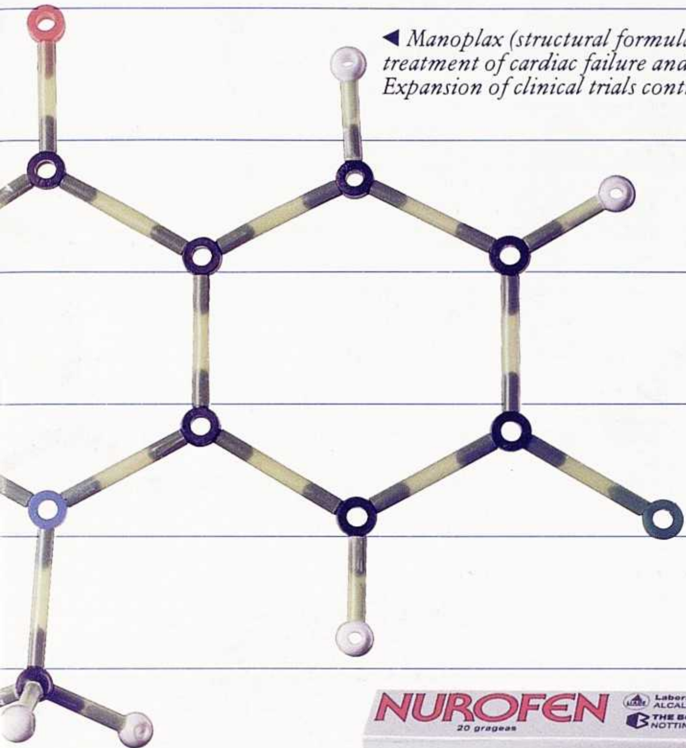
► Electronic Point of Sale (EPOS)—investment in advanced information technology vital to the profitable development of our business.



Consumer product development—working on a wide range of consumer healthcare, cosmetics and toiletry products for the Boots group. ►

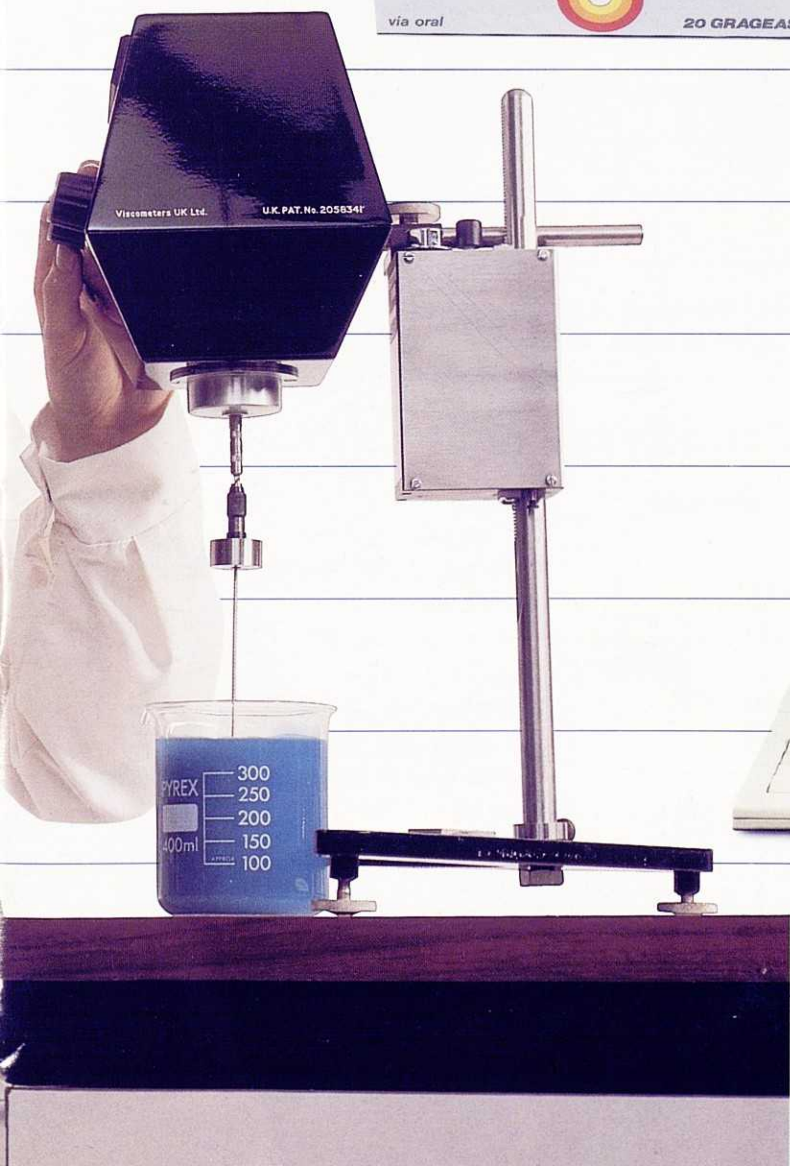
▲ Childrens World—an exciting new retail concept which has been enthusiastically received by customers.

across a broad range of activities . . .



◀ Manoplax (structural formula)—for the treatment of cardiac failure and hypertension. Expansion of clinical trials continues.

◀ Products developed and manufactured by Boots—caring for people worldwide.



▲ Computer aided drafting—producing design drawings for store layouts and retail projects.

Contents

For notice of annual general meeting see separate document
The annual general meeting will be held at the Grosvenor House Hotel, London on 28th July 1988

Financial calendar

Dividends and interest payments

Ordinary dividends

Final 1987/88:
Announced 9th June 1988.
Payable 23rd August 1988.

Interim 1988/89:
Announced 24th November 1988.
Payable 3rd February 1989.

Final 1988/89:
Proposed June 1989.
Payable August 1989.

7¾% loan stock interest:
Paid 30th September and
31st March.

Results

For half-year:
Announced 24th November 1988.

For the year:
Announced June 1989.

Report and accounts:
Circulated end June 1989.

For capital gains tax purposes the market value of a Boots share was 112·5p on 31st March 1982.

Group highlights

for the year ended 31st March 1988

	1988 £m	1987 £m	% change on 1987
Turnover	**2697·1**	2351·7	+14·7
Profit on ordinary activities before taxation	**267·2**	242·8	+10·0
Profit attributable to shareholders	**189·7**	163·8	+15·8
Capital expenditure	**124·0**	99·1	+25·1
Research and development	**35·9**	30·6	+17·3
Earnings per share	**20·4p**	19·5p	+4·6
Dividend per share	**8·8p**	8·0p	+10·0

The above comparisons are affected by the change to coterminous accounting by overseas companies. See note 2 on page 22 for further details.

Board of directors

Chairman
R N Gunn
Robert Gunn, 62, joined the company in 1951 and became a director in 1976. He held executive appointments in retail buying, distribution and property before he became Managing Director of Industrial Division in October 1980. He was appointed Vice Chairman and Chief Executive in 1983, and became Chairman in 1985. He relinquished the duties of Chief Executive in October 1987. Since 1984 he has been a non-executive director of Foseco Minsep.

Chief Executive
Sir James Blyth
Sir James, 48, joined the company and the board in October 1987 as Chief Executive, after previous appointments as Group Managing Director of The Plessey Company, and Head of Defence Sales at the Ministry of Defence. His early career included appointments with Mobil Oil, General Foods, Mars and Lucas. He is a non-executive director of Cadbury Schweppes and a governor of the London Business School.

Managing Director Retail Division
K Ackroyd
Keith Ackroyd, 53, joined the company in 1952 and became a director in 1979. He is a Fellow of the Royal Pharmaceutical Society of Great Britain. He held many senior appointments in the Retail Division and was appointed Managing Director of Boots The Chemists in 1983. He took up his present position in 1984.

Managing Director Industrial Division
E E Cliffe
Eric Cliffe, 55, joined the company in 1959 and became a director in 1979. He has a D.Phil. degree and is a Fellow of the Royal Society of Chemistry and of the Institute of Biology. His responsibilities included research and development and pharmaceutical marketing before he took up his current position in 1983.

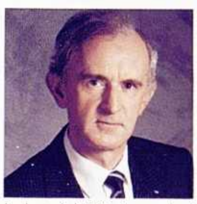
Finance Director
P H Courtney
Peter Courtney, 55, joined the company in 1982 as Finance Director after nine years with The Rank Organisation where he held a similar position. He is a Chartered Accountant. In his early career he held appointments with Dunlop, Standard Telephones and Cables and worked with a firm of international management consultants.

Staff Director
A H Hawksworth, TD, ADC
Alan Hawksworth, 52, joined the company in 1959 and became a director in 1984. After an early career in warehousing and production, he held a number of senior appointments in the personnel function, including membership of the Industrial Divisional Board as Director of Personnel.

Managing Director
Boots The Chemists
G M Hourston
Gordon Hourston, 53, joined the company in 1958 and became a director in 1981. He is a Fellow of the Royal Pharmaceutical Society of Great Britain. He held senior appointments in Boots The Chemists and was appointed Director of Retail Staff in 1978 and Staff Director on his board appointment in 1981. He became Deputy Managing Director of Boots The Chemists in 1984 and took up his present position in June 1988.

Marketing Director Industrial Division
T G Richardson
Terry Richardson, 51, joined the company in 1971 and became a director in 1983. After extensive experience in the pharmaceutical industry he held senior appointments in Pharmaceutical Marketing and became a director of the Industrial Division in 1979. His responsibilities now include research, central marketing, UK and non-US overseas companies.

Property Director
M F Ruddell
Mike Ruddell, 44, joined the company in 1966 and became a director in 1984. After an early career in personnel and finance he held several senior appointments in retail marketing and was appointed to the Retail Divisional Board in 1983. In 1986 he became Large Stores Director with responsibilities including merchandise and buying within Boots The Chemists. He took up his present position in June 1988.



Director, North America
G R Solway
Gordon Solway, 51, joined the company in 1961 and became a director in 1979. An economist, his career has spanned finance, corporate development and administration across both Retail and Industrial Divisions. In 1983 he joined the Industrial Divisional Board with responsibility for production and other services. He took up his present position upon the acquisition of Flint in 1986. He is based in Illinois, USA.

Board of directors

Corporate Development Director
B H C Theobald
Bernard Theobald, 53, joined the company in 1958 and became a director in 1979. His career includes senior appointments in buying and retail marketing and in 1977 he was appointed to the Retail Divisional Board as Director of Merchandise. He took up his present appointment in 1984.

Non-executive Directors

Vice Chairman
A B Marshall
Sandy Marshall, 63, became a director in 1981 and Vice Chairman in 1985. He is Chairman of the Commercial Union Assurance Company, and of the Maersk Company and a director of the Royal Bank of Canada and of the General Council of British Shipping.

The Rt Hon
Sally Oppenheim-Barnes, PC
Sally Oppenheim-Barnes, 57, who became a director in 1982, was a Member of Parliament from 1970 to 1987 and Minister of State for Consumer Affairs from 1979 to 1982. In 1987, she was appointed Chairman of the National Consumer Council. She was appointed a Privy Counsellor in 1979.

I M G Prosser
Ian Prosser, 44, became a director in 1984. He is Chairman and Chief Executive of Bass and is a director of Lloyds Bank. He is a Chartered Accountant.

Sir Peter Reynolds, CBE
Sir Peter, 58, became a director in 1986. He is Chairman of Ranks Hovis McDougall and is a director of Guardian Royal Exchange Assurance. He holds a number of appointments in the food industry and is a member of the Industrial Development Board for Northern Ireland.

Board Audit Committee
Chairman A B Marshall
I M G Prosser
Sir Peter Reynolds

Board Remuneration Committee
Chairman R N Gunn
Sir James Blyth
A B Marshall
The Rt Hon Sally Oppenheim-Barnes, PC
I M G Prosser
Sir Peter Reynolds

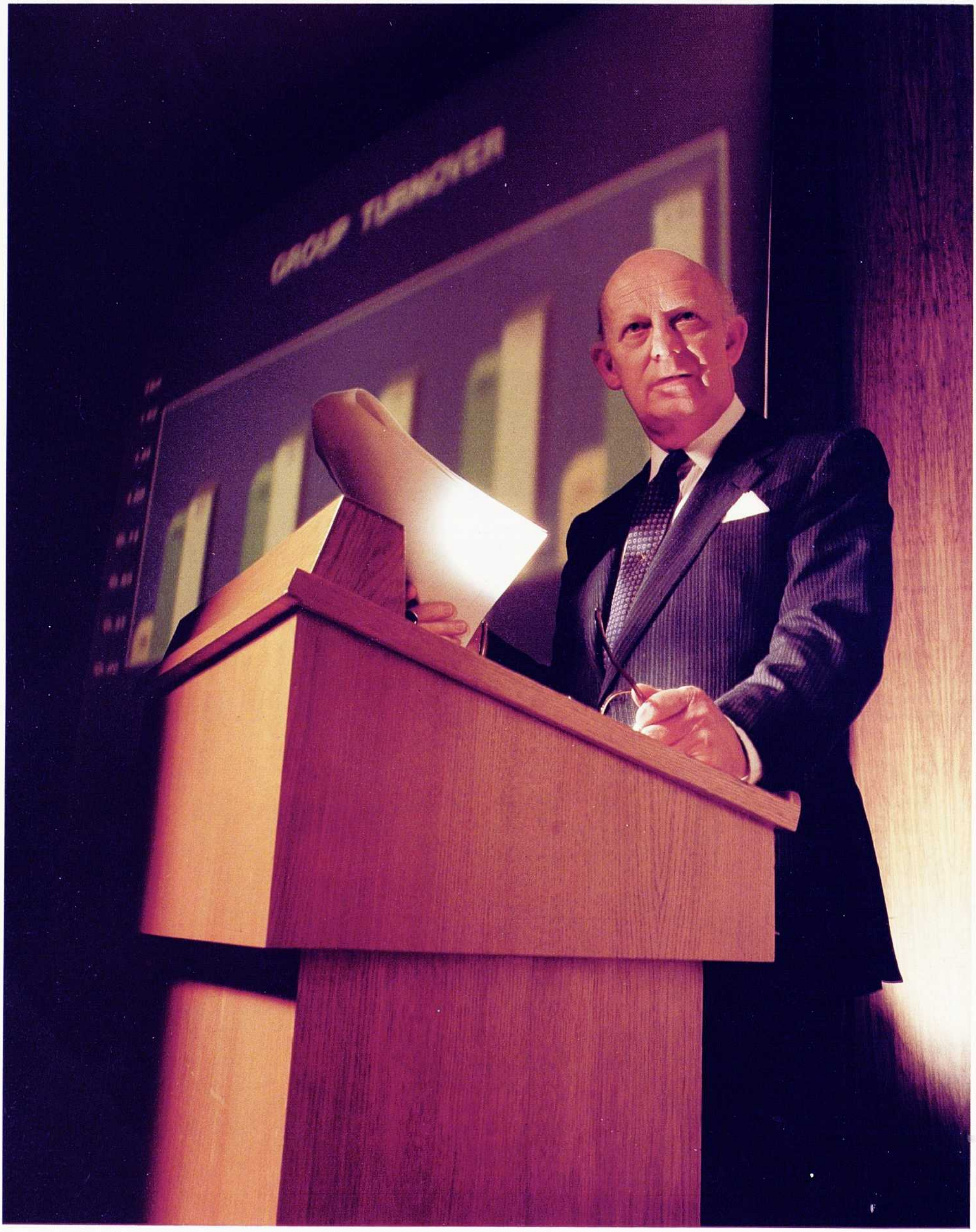
Secretary
D N Edmundson

Registered office
Nottingham, NG2 3AA

Auditors
Peat Marwick McLintock

Bankers
National Westminster Bank PLC
National Girobank
Barclays Bank PLC

Registrars and transfer office
National Westminster Bank PLC,
Registrar's Department,
P.O. Box 82,
Caxton House,
Redcliffe Way,
Bristol. BS99 7NH


GROUP TURNOVER

Statement by the Chairman

A year of continued progress for your company has seen sales increase by 14·7% to £2,697 million and profits before tax by 10% to £267·2 million. These figures include 15 months trading results for our overseas subsidiary companies whose financial years have been changed from 31st December to 31st March to bring them into line with the rest of the group. On an annualised basis group sales increased by 10·1% and profit before tax by 6·1%.

Profit attributable to shareholders increased by 15·8% and the directors have recommended a final dividend of 5·7p per share, making a total of 8·8p per share (1987 8·0p per share), an increase of 10%.

Our strategy of improving the quality and range of merchandise in Boots The Chemists continues in parallel with the upgrading and refurbishment of the stores. By the end of the current financial year over 700 stores will have been involved in this programme in a three-year period. Significant real growth was achieved in spite of the fact that sales in the second half of the year were less buoyant. At the same time market shares in several of our core business areas were increased.

The conversion to Boots Opticians of optical businesses acquired last year is now virtually complete and substantial increases in both sales and profits were achieved. The expansion of the optical chain will continue and prospects for this business are excellent.

The progress to date of our new retail concept, Childrens World, has been encouraging. Five new stores have been opened, bringing the total to eight, and we plan to open a further 10 stores in the next year.

In the Industrial Division, we are concentrating our resources in the core businesses of prescription pharmaceuticals and over-the-counter health and personal care products. As a result we have sold three businesses which did not fit with this strategy.

In the United States our new organisation, The Boots Company (USA) Inc., continues to perform strongly, and fully justifies our decision to purchase Flint Laboratories in September 1986.

The clinical trial programme for our new cardiovascular product, Manoplax, has been expanded and we expect to have sufficient clinical experience with this drug in cardiac failure to permit application for marketing authorisation in some major countries next year.

Sales of consumer products made further progress, led by an excellent performance from Crookes Healthcare which markets healthcare products nationally in the United Kingdom.

Sir James Blyth was appointed to the Board as Chief Executive in October 1987. With his wide business experience and fresh approach, he is already making an important contribution to the development of the Company. David Sarre resigned as a non-executive director on 31st March 1988 in order to devote more time to the several charities with which he is associated. I thank him for his help and counsel during the eight years he has been a director.

As always, the Company is very dependent on the people who work for it and, on behalf of the directors, I thank all our staff for their hard work and commitment during the past year.

The many important developments taking place within the Company provide a basis for profitable growth. Although trading conditions in many areas of the business are very competitive, I am confident that the measures we are taking will lead to a further improvement in our performance.

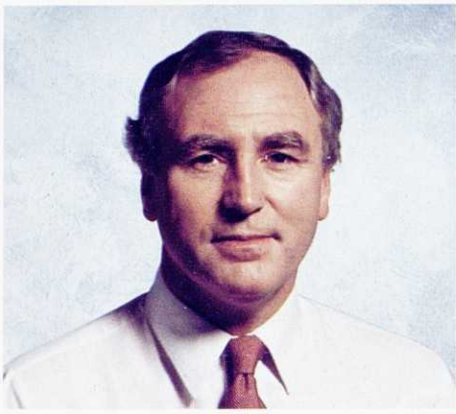
Robert Gunn

Robert Gunn, Chairman

The many important developments taking place within the Company provide a basis for profitable growth.

Chief Executive's Review

The core business of health and beauty continues to be successful with our high market shares increasing further.



Sir James Blyth

Group Results

Sales at £2,697·1 million and profit before tax at £267·2 million were ahead of last year by 14·7% and 10·0% respectively. 15 months trading results for our overseas companies are included in these figures.

On a basis comparative with last year, sales were £2,589·8 million and profits before tax £257·6 million representing increases of 10·1% and 6·1% respectively.

Retail division sales on an annual basis were £2,205·2 million, an increase of 10·0% and profits £148·0 million, an increase of 2·5%. UK sales at £1,980·2 million increased by 10·0% and trading profits at £130·8 million by 4·8%.

Industrial Division sales at £519·2 million and profits before tax at £101·8 million increased on an annual basis by 11·1% and 20·5% respectively. Much of the increase came from the Flint acquisition which is included for the full twelve months compared with four months last year. Changes in currency exchange rates, resulting from strengthened Sterling particularly against the US dollar, adversely affected the divisional sales by £14·6 million and profits before tax by £5·0 million compared with last year.

We disposed, during the year, of Technochemie, our chemical business in Germany, and of our share of Boots Celltech. In April we disposed of our Hospital Products business. We continued to invest heavily in the future of both our main operating divisions. We are involving ourselves in much re-organisation, both centrally and in the divisions. This is designed to produce greater accountability, greater speed of response and greater efficiency.

Retail

BOOTS THE CHEMISTS

Boots The Chemists' sales increased by 8% of which 6% was real growth. This reflected excellent increases in many merchandise categories, together with market share growth, particularly in the core business areas of medicines, cosmetics, and photo-processing. Some sales were lost however due to the discontinuation of some low-profit merchandise ranges, and the recent down-turn in the audio-visual market particularly during the important Christmas period. Despite shrinkage, which is a continuing but reducing problem, the underlying gross margin has improved on last year.

Our policy in recent years has been to improve the performance of our existing sales area, concentrating on key business sectors in which we can excel. This policy has necessitated many changes—management restructuring to make managers more accountable; further improvements in customer service, based on extensive research; an extensive store refurbishment programme to modernise our stores and accentuate key business areas and improvements to product quality so that the standard for all products which we sell is very high.

The operating benefits of this policy are now becoming evident. Despite the high costs of dislocation and change over the last three years, sales and profit per square metre of sales area have increased by an average of nearly 8% and 10% per annum respectively, while store staff productivity has risen by 5% per annum.

Information technology is vital for further improvement in efficiency and we are continuing to invest heavily in this area. We now have 84 stores equipped with Electronic Point of Sale (EPOS) and are adding more stores at the rate of three a week. By Christmas of 1989, all our Large Stores will be equipped, as will a number of our Small Stores. Additionally, we have a computer based Direct Product Profitability (DPP) system in operation, which gives considerable product by product cost and profitability information. In combination, EPOS and DPP are giving us far better information by which to manage the business, improve gross profit margins, rationalise the inventory, eliminate unprofitable merchandise and better utilise our valuable sales area.

▲ *Health and Beauty—the cornerstone of Boots The Chemists business.*

Chief Executive's Review

We are continually updating existing stores and moving to better locations as opportunities arise.

Merchandise and marketing development continues at a fast pace. Some 30% of our non-dispensing sales in the year came from new or relaunched products. Over-the-counter healthcare sales, with a market share of 30%, had a successful year particularly in Boots own brand medicines where market shares increased.

The beauty business with 33% of the market further increased share with particular success from Boots Nº7 which is now the leading UK brand. As an extension to our beauty and fragrance specialism, women's fashion accessories have been introduced into 25 stores during the year, and 13 departments opened specialising in men's fragrance and accessories.

Food sales continued to increase with the expansion in the number of shops offering a comprehensive range of healthy snack foods including sandwiches and yoghurts from chiller cabinets. A range of sweets free from artificial colourings and preservatives was successfully launched during the year.

Bath Shops have been introduced into 15 stores selling co-ordinated ranges to enhance the appearance of an existing bathroom.

We have developed our own range of educational toys for young children, forming the cornerstone of our new Play and Learn departments, of which we now have 42 in place.

We have enlarged many Baby Departments selling not only the foods, toiletries and nappies for which we are well known, but also clothing for ages up to 10, an extensive range of pushchairs, cots and car safety equipment, bedding, toys and shoes.

Photographic sales, particularly compact cameras, films and processing have been particularly successful. In the case of processing, our market share, based on our reputation for quality, has substantially increased to over 20%. This has been achieved by the rapid development of mini-labs with one hour processing. We now have over 200 mini-labs within Boots stores, making Boots one of the largest operators in the world.

We are continually updating existing stores and moving to better locations as the opportunities arise. A number of new Small Stores have opened particularly in London, and there have been major investments at Harlow, Preston, Romford and Rotherham, and a large new store is under construction in Liverpool.

BOOTS OPTICIANS

After five years of operation we now have the second largest chain of opticians in the UK with 257 practices. Sales have been well up to our expectations. The number of in-store practices has continued to expand, and the free-standing practices have increased by acquisition and new openings.

The acquired practices have undergone a major conversion programme to the Boots format, and have shown an immediate increase in business.

The provision of an outstanding professional service is paramount and our staff are supported by the latest technology available. In addition in-store optical laboratories have been created within many Boots Opticians to give a fast on-site service for dispensing spectacles. More are planned for the current year.

CHILDRENS WORLD

The first store was opened in Dudley in February, 1987. Since then we have opened new stores at a fast rate with a total of eight now open and a further 10 planned to be open by 1989.

Childrens World has been enthusiastically received by customers and we are convinced that the stores will be successful.

OVERSEAS

Canada has continued to encounter difficult trading conditions and, as already announced, following a strategic review, it has been decided to dispose of all the 61 Boots Drugstores in Western Canada. Management attention can now be concentrated on the 116 stores in Ontario.

In France, a further nine stores were added to our chain of beauty shops trading as Sephora, bringing the total to 38. Having taken the business to critical mass we are now undertaking a period of consolidation and anticipate that the chain will improve in profitability in the current financial year.

Pharmaceutical and Consumer Products

UNITED KINGDOM

Sales increased by 11% driven by the success of Crookes Healthcare which markets products nationally to

▲ *A major investment in a new large store in Liverpool.*

Chief Executive's Review

Crookes Healthcare continues its excellent performance with its major products market leaders.

pharmacies, and which continued its excellent performance with a sales increase of over 20%. Its major products, Nurofen, Optrex, Strepsils, Karvol, Cream E45 and Sweetex, all market leaders, have provided the main impetus to growth. The Farley products have continued to enjoy a considerably increased market share.

In January this year Froben SR, was launched in the UK and has provided a successful entry into the market for 'once-a-day' treatment of rheumatism and allied disorders. The antirheumatics, Brufen and Froben, showed growth despite increasing competition from generic products and Prothiaden maintained its position as market leader for the treatment of depression.

The UK results include the supplies of Own Brand products to Boots The Chemists and a wide range of other customers. This part of the business has been subject to intense competition amongst manufacturers but showed improvement in the second half of the year with good supplies of the comprehensive medicine range to Boots The Chemists. As a result of the success of the Nº7 and 17 ranges in Boots The Chemists the division is the leading manufacturer in the UK of colour cosmetics and skin care products.

NORTH AMERICA

Our business in North America comprises the sales and profits of our subsidiary companies in the United States and in Canada, plus exports to third parties including our licensees. Sales increased by over 20%.

The integration of the businesses of Boots Pharmaceuticals, Inc. and Flint Laboratories, Inc. into The Boots Company (USA) Inc. is complete. The sales forces have been combined and reorganised into two business units. The main sales force, calling both on physicians and on the new organisations which influence the process of prescription, dispensing and reimbursement, concentrates upon our principal branded products, whilst a smaller cadre of area managers covers wholesalers and the larger retailer chains for generic products and distribution-sensitive brands.

Marketing, sales management and administration moved during the year into new offices in Lincolnshire, Illinois.

Our largest product, Synthroid, for the treatment of insufficiency of thyroid function, continues to perform strongly on the basis of its superior quality and dosage range. Rufen, our antirheumatic product, has continued to face intense price competition with an adverse effect on margins.

In anticipation of the transfer from Upjohn of rights to their erythromycin product range, E-Mycin, we are already involved under an ancillary agreement in promoting this product and have gained valuable experience with it.

Whitehall Laboratories, a subsidiary of American Home Products Corporation, is our very successful licensee in the United States with over-the-counter ibuprofen products, marketed under the brand name Advil. Pending completion of their own expanded tableting facilities we have continued to supply very substantial quantities of finished tablets.

In Canada, where our business has previously been wholly in the hands of licensees, we have established a new subsidiary, Flint Laboratories (Canada) Ltd.

INTERNATIONAL

This management area covers all of the Division's business overseas through subsidiary and related companies, licensees and agents apart from North America. Sales increased by 2% although, eliminating from both years the sales of Boots India, in which the equity holding has been reduced to below 50%, the sales increase was 11%.

Export sales and sales by subsidiary companies in Northern Europe showed good increases. By contrast, sales suffered in Southern Europe as a result of the mild winter weather and action by Governments to restrict expenditure on prescription medicines.

Ostermilk and rusks both of which formed part of the acquisition of the overseas Farley businesses, and Nubain and other products acquired from DuPont, contributed to the buoyant sales growth in Australia, New Zealand and countries in the Pacific Basin area. Export sales to Japan showed an improvement over recent years following the launch of Nurofen by our licensee.

India and Pakistan again produced good sales increases despite the price restrictions on prescription products in India.

▲ *Crookes Healthcare—markets products to pharmacies throughout the UK.*

Chief Executive's Review

Expansion continues of the clinical trial programme on our new cardiovascular product, Manoplax.

Production

The output of ibuprofen, for use as the active ingredient in our successful prescription and consumer medicines Brufen and Nurofen, and for sale to third parties in the UK and overseas, has increased steadily over recent years. This increase has been met by cost-competitive improvements in plant capacity and, in terms of tonnage, ibuprofen is now the third most widely used medicine in the world.

Since the end of the year, we have announced jointly with Hoechst Celanese our intention of forming a joint venture for the production and marketing of ibuprofen raw material in the United States. The new generation technology to be used will enable us to maintain and further strengthen our competitive position in the US ibuprofen products market.

A new plant has been successfully commissioned at Beeston and is manufacturing Optrex eye lotion, ointment and drops under sterile conditions.

Our chemical plant at Cramlington has been further extended by the completion and commissioning of a new multi-product factory mainly for the production of the raw materials for our new prescription pharmaceuticals. This factory uses the very latest advances in technology for pharmaceutical chemical production.

Research and Development

The planned expansion of the clinical trial programme on our new cardiovascular product, Manoplax, for the treatment of cardiac failure and hypertension has continued. During the year considerable benefit was gained from a meeting of leading specialists from Europe and the US at which the clinical features of Manoplax were discussed. This meeting served to reinforce our confidence in the product. It is anticipated that sufficient clinical experience with the drug in cardiac failure will have been obtained to permit application for marketing authorisation in some major countries next year. A growing number of scientific and medical reports favourable to Manoplax have been or will soon be published.

Clinical trials on BTS 54 524, the new antidepressant, are proceeding and are due to be extended in the coming year.

A sustained-release formulation of flurbiprofen designed for administering once a day has been approved for sale in the UK, Switzerland and Pakistan. Further applications for marketing are pending.

The year has been very active for consumer products development. Nurofen is now approved and sold in 14 countries, the latest launch being in Spain last January. For Boots The Chemists the developments included new products containing allergy screened ingredients in the No7 range, a new prestigious hair care range designated Touch of Silk with silk protein and preparations for the relaunch of the successful Soltan range of advanced sun care products in new livery.

The Future

We are well placed, financially and operationally, to reap the benefits of the considerable changes taking place across the full range of our activities. In retailing we have a management structure able to respond quickly in a fast moving market. We do not seek fashion for fashion's sake but we do aim to ensure that customers' requirements are met and that value for money is translated into improved profitability and increased returns for our shareholders.

The success of this policy is already coming through, assisted not only by product innovation and improved store design but by vital advances in the use of EPOS and DPP which together are revolutionising our ability to manage a highly efficient retail business. Where we have moved into new fields, notably Childrens World and Boots Opticians, our view of the market has been proved right and already we have strong positions in both. In the face of intense competition we have further increased our already high market shares in a number of key areas, not least medicines, cosmetics and photo-processing.

In all the product categories which we ourselves manufacture, we continue to invest heavily in research and development and new production using the very latest technology. This ongoing investment is essential for the provision of a new generation of products to add to our already strong stable.

▲ *Chemical production in Cramlington, Northumberland—using the very latest advances in technology for pharmaceutical chemical production.*

Directors' report

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited accounts for the year ended 31st March 1988.

Principal activities

The group's worldwide trading is conducted through two divisions, Industrial and Retail. The principal activities of the former are the research, manufacturing and marketing of pharmaceuticals and consumer products. The Retail Division's principal activities are the retailing of chemist and other merchandise. A review of group activities is shown on pages 9 to 15.

Group results

The group profit and loss account for 1988 (with 1987 comparisons) shown on page 18 includes the following details:

	1988 £m	1987 £m
Turnover	**2697·1**	2351·7
Profit on ordinary activities before taxation	**267·2**	242·8

Appropriations

The directors recommend the payment of a final dividend of 5·7p per share which, if approved by shareholders, will be posted on 23rd August 1988 to shareholders registered on 30th June 1988. When added to the interim dividend of 3·1p already paid this makes a total dividend for the year of 8·8p per share (1987 8·0p per share). Payment of these dividends requires £81·2m (1987 £73·6m), leaving £108·5m (1987 £90·2m) retained in the business.

Group structure

In order to concentrate on its core businesses, the company has disposed of its interests in Technochemie GmbH, the Boots-Celltech Diagnostics group and Boots Hospital Products during the year. It also decided to dispose of 61 retail stores in the Western provinces of Canada.

Share capital

Details of shares issued during the year are shown in note 19 on page 31.

Fixed assets

Certain of the group's UK shop properties were professionally valued by Hillier Parker, and Weatherall Green and Smith, as at 1st January 1986. The valuation, on the basis of open market value for existing use, amounted to £502m resulting in a surplus of £326m over historical net book value.

The valuation included all freehold and those leasehold shop properties with no rent review or lease expiry date before 31st March 1993. This valuation has not been incorporated into the accounts.

It is anticipated that no taxation will become payable on this revaluation surplus, as taxation on gains on properties sold in the normal course of business is expected to be deferred indefinitely.

Details of fixed assets are shown on pages 25 and 26.

Staff

The company continues to involve staff in the decision-making process, through management, through a comprehensive structure of staff councils and with trade unions where they represent staff. In addition *Boots News,* which is published every six weeks, is sent to employees throughout the world. This is supported by an annual report to staff and a video presentation, in which the directors report on group results.

In the UK, staff involvement in performance is encouraged through a bonus scheme and employee share schemes. The involvement of staff also extends to the board of Boots Pensions Ltd., on which there are four employee representatives.

The company does all that is practicable to meet its responsibility towards the employment of disabled people. Applicants for employment are considered in the light of their aptitudes and abilities. Where an employee becomes disabled every effort is made to provide continuity of employment in the same job or a suitable alternative.

The training and re-training of staff is a high priority. Much of this training is on-the-job as well as in-house and external courses. The company has continued its high level of support for the Youth Training Scheme with approved places for over 1000 trainees during the year and has been awarded Approved Training Organisation status.

Directors' report

The company's aim for all members of staff is to fit the qualifications and ability of each individual to the appropriate job, and to provide equal opportunity regardless of sex, religion or ethnic origin.

■ *Business in the Community*

Our support for job creation through Business in the Community has been increased. The number of Local Enterprise Agencies to which we give financial or other support has risen from 70 to 108 during the year.

■ *Charitable donations*

Donations for charitable and educational purposes in the UK for the year were £622,000 (1987 £564,000). There were no political payments.

■ *Directors*

On 22nd October 1987, Sir James Blyth was appointed to the board and in accordance with article 107 retires and offers himself for re-election. Sir James has a service contract which is terminable by the Company giving not less than 3 years notice.

On 31st March 1988, Mr. D. A. G. Sarre resigned as a non-executive director in order to devote more time to the several charities with which he is associated.

Mr. I. M. G. Prosser retires by rotation in accordance with article 100 and offers himself for re-election. Mr. Prosser has no service contract with the company.

No director had any interest, either during or at the end of the financial year in any contract which was significant in relation to the group business.

Details of the interests of the directors and their families in the share capital of the company are shown in note 24 on page 34.

■ *Shareholders*

The directors are not aware that any person held a beneficial interest in 5% or more of the share capital of the company at 9th June 1988.

■ *Company status*

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to this company.

■ *Auditors*

It is proposed to re-appoint Messrs. Peat Marwick McLintock as auditors and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
D N Edmundson, *Secretary.*
9th JUNE 1988.

Group profit and loss account

for the year ended 31st March 1988

	Notes	1988 £m	1987 £m
Turnover	2	**2697·1**	2351·7
Trading profit	3	**251·7**	228·4
Interest and similar income	4	**15·5**	14·4
Profit on ordinary activities before taxation		**267·2**	242·8
Taxation on profit on ordinary activities	5	**(78·1)**	(77·4)
Profit on ordinary activities after taxation		**189·1**	165·4
Minority interests		**(·8)**	(1·6)
		188·3	163·8
Extraordinary profit after taxation	6	**1·4**	–
Profit for the financial year attributable to shareholders	7	**189·7**	163·8
Dividends	8	**(81·2)**	(73·6)
Profit retained		**108·5**	90·2
Earnings per share	9	**20·4p**	19·5p

1988 results are affected by the change to coterminous accounting by overseas companies. See note 2 on page 22 for further details.

Movements in reserves are shown in note 20 on page 32.

Balance sheets

31st March 1988

		Group		Parent	
		1988	1987	**1988**	1987
	Notes	**£m**	£m	**£m**	£m
Fixed assets					
Intangible assets	10	**6·1**	5·1	**5·7**	4·7
Tangible assets	11	**660·0**	615·1	**182·8**	174·0
Investments	12	**3·2**	4·9	**205·7**	222·8
		669·3	625·1	**394·2**	401·5
Current assets					
Stocks	13	**412·5**	431·3	**150·8**	156·8
Debtors	14	**188·7**	167·0	**390·0**	362·2
Investments	15	**242·0**	178·6	**209·2**	152·2
Cash at bank and in hand		**6·5**	9·6	**·1**	·1
		849·7	786·5	**750·1**	671·3
Creditors: amounts falling due within one year	16	**(491·6)**	(467·4)	**(385·0)**	(344·2)
Net current assets		**358·1**	319·1	**365·1**	327·1
Total assets less current liabilities		**1027·4**	944·2	**759·3**	728·6
Creditors: amounts falling due after more than one year	17	**(10·1)**	(12·4)	**(27·3)**	(27·2)
Provisions for liabilities and charges	18	**(18·5)**	(17·3)	**(16·8)**	(17·9)
Net assets		**998·8**	914·5	**715·2**	683·5
Capital and reserves					
Called up share capital	19	**230·7**	230·0	**230·7**	230·0
Share premium	20	**7·4**	·1	**7·4**	·1
Revaluation reserve	20	**6·3**	6·9	**—**	—
Profit and loss account	20	**754·3**	676·2	**477·1**	453·4
		998·7	913·2	**715·2**	683·5
Minority interests		**·1**	1·3	**—**	—
		998·8	914·5	**715·2**	683·5

Approved by the board

ROBERT N. GUNN } *Directors*
JAMES BLYTH }

9th JUNE 1988.

Source and application of funds

for the year ended 31st March 1988

	1988		1987	
	£m	£m	£m	£m
Source				
Group trading:				
Profit on ordinary activities before taxation		**267·2**		242·8
Share of results of related companies		**—**		1·1
Depreciation less net surplus on disposal of fixed assets		**34·0**		27·3
		301·2		271·2
Dividends from related companies		**·3**		—
Proceeds on disposal of tangible fixed assets		**36·4**		30·4
Loans		**·1**		·5
Issue of ordinary shares		**8·0**		391·2
		346·0		693·3
Disposal of subsidiary and related companies		**14·0**		·3
		360·0		693·6
Application				
Capital expenditure		**124·0**		99·1
Investments:				
Subsidiaries and businesses acquired	**14·4**		418·6	
Related companies	**—**		3·5	
		14·4		422·1
Intangibles		**1·5**		—
Change in creditors falling due after more than one year		**·1**		(·2)
Repayment of loans		**·3**		—
Dividends paid		**76·4**		59·4
Taxation paid		**83·3**		69·1
Changes in working capital:				
Stocks	**(9·1)**		54·4	
Debtors	**23·3**		13·7	
Creditors falling due within one year	**(7·6)**		(·5)	
		6·6		67·6
Other items		**1·9**		·8
		308·5		717·9
Changes in net cash resources:				
Listed investments	**24·8**		(4·4)	
Short term deposits	**41·9**		(7·8)	
Cash at bank and in hand	**(2·5)**		(3·3)	
Bank loans and overdrafts	**(12·7)**		(8·8)	
		51·5		(24·3)
		360·0		693·6

Disposal of subsidiary and related companies comprises tangible fixed assets £3·3m, net current assets £0·9m, creditors falling due after more than one year £0·9m, share of net liabilities in related companies £0·1m and profit £10·8m.

The cost of subsidiaries and businesses acquired comprises tangible fixed assets £2·7m, goodwill £12·6m, deferred tax asset £0·1m, and net current liabilities of £1·0m.

Exchange differences on translation of results and opening net assets of overseas subsidiaries have been excluded from applications as they do not represent movements of funds.

Notes relating to the accounts

■ *1 Accounting policies*

The following accounting policies have been used in dealing with items material to the group accounts.

■ *Basis of accounting*

The accounts have been prepared under alternative accounting rules set out in the 4th Schedule to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties at open market value. A separate profit and loss account for the parent company has not been presented as permitted by section 228(7) of the Companies Act 1985.

■ *Consolidation*

The accounts combine the results of the company and its subsidiaries and related companies for the period of, and to the extent of, group ownership, after eliminating intra-group transactions. The excess of cost of investments in subsidiaries over the fair value of net tangible assets acquired is written off to reserves.

Related companies are those companies in which the group has an equity interest of between twenty per cent and fifty per cent and over whose policies the group is able to exercise a significant degree of influence. The proportion of results attributable to the group is included in the group profit and loss account and dividends received from them are, therefore, excluded from investment income. In the group balance sheet investments in related companies are shown at the group's share of net assets excluding goodwill.

During the year overseas companies of the group, other than certain related companies, adopted financial years coterminous with that of the parent company. They previously reported to 31st December. The accounts of all subsidiary and significant related companies are now included to 31st March 1988.

In order for a fair comparison to be made with previous year's figures, overseas turnover and profit for the additional three months to 31st March 1987, based on unaudited management accounts, are separately disclosed in note 2 on page 22.

■ *Foreign currencies*

The results of overseas companies are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Assets and liabilities of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the date of the group balance sheet.

Translation differences are taken to reserves. Other exchange gains or losses are taken to trading profit where they relate to items of a trading nature. Overseas investments are stated at the rate of exchange in force at the date each investment was made.

■ *Depreciation*

No depreciation is provided on freehold land, shop freeholds and long leaseholds with more than 100 years to run, because of their high residual values, nor on assets in course of construction. Other tangible fixed assets are written off by equal instalments over their expected normal lives. The maximum life assumed for freehold buildings, other than shops, is forty years, and the lives assumed for fixtures and plant vary between three and twenty years.

Intangible fixed assets acquired, such as patents, trade marks and other product rights, are written off by equal instalments over their estimated lives which range between four and fifteen years. Similar assets generated from within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

■ *Stocks*

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

■ *Research and development*

Expenditure, other than on buildings and plant, is charged against profits in the year in which it is incurred.

■ *Pension funding*

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trustee administered funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at regular intervals and include a review of contributions.

Certain companies operate their own pension schemes.

Notes relating to the accounts

Leases

The group's principal leased assets are properties held under operating leases. The costs of these leases are charged directly to the profit and loss account.

Deferred taxation

A deferred taxation provision is made only where the effects of timing differences between profits as stated in the accounts and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent that it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets since any liability has been deferred under capital gains provisions.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiary and related companies as the major part of these profits will not be remitted.

2 Turnover and profit on ordinary activities before taxation

	1988		1987	
	Turnover £m	**Profit £m**	Turnover £m	Profit £m
Industrial Division	**519·2**	**101·8**	467·3	84·5
Overseas: quarter to March 1987	**59·1**	**12·8**	–	–
	578·3	**114·6**	467·3	84·5
Retail Division	**2205·2**	**126·7**	2005·0	123·4
Surplus on disposal of properties	**–**	**21·3**	–	21·0
		148·0		144·4
Overseas: quarter to March 1987	**48·2**	**(2·6)**	–	–
	2253·4	**145·4**	2005·0	144·4
Inter-divisional	**(134·6)**	**–**	(120·6)	–
Interest and unallocated items	**–**	**7·8**	–	13·9
Overseas: quarter to March 1987	**–**	**(·6)**	–	–
	2697·1	**267·2**	2351·7	242·8

	1988		1987	
	Turnover £m	**Profit £m**	Turnover £m	Profit £m
Turnover by geographical destination and related profits are as follows:				
UK	**2078·9**	**188·0**	1883·5	184·3
Europe	**185·1**	**10·8**	135·4	9·2
US	**129·8**	**52·7**	83·2	27·5
Other Americas	**220·3**	**(2·4)**	177·9	1·0
Rest of World	**83·0**	**10·9**	71·7	8·0
	2697·1	**260·0**	2351·7	230·0
Share of results of related companies	**–**	**–**	–	(1·1)
Interest and unallocated items	**–**	**7·2**	–	13·9
	2697·1	**267·2**	2351·7	242·8

Turnover comprises sales to external customers excluding sales taxes.

Notes relating to the accounts

3 Trading profit

	1988 £m	1987 £m
Turnover	**2697·1**	2351·7
Cost of sales	**(1649·3)**	(1453·8)
Gross profit	**1047·8**	897·9
Selling, distribution and branch costs	**(691·5)**	(585·9)
Research and development costs	**(35·9)**	(30·6)
Administration costs	**(101·7)**	(87·0)
Surplus on disposal of retail trading properties	**21·3**	21·0
Other operating income	**11·7**	14·1
Share of results of related companies	**–**	(1·1)
Trading profit	**251·7**	228·4
Trading profit is after charging:		
Property rents	**45·2**	37·8
Depreciation	**54·1**	46·2
Computer and plant hire	**5·2**	4·2
Remuneration of auditors	**·7**	·6

1987 figures have been restated by transferring £9·3m from selling, distribution and branch costs to administration costs.

The key average exchange rates for the year were:

US dollar	**1·67**	1·56
Canadian dollar	**2·11**	2·05
Australian dollar	**2·36**	2·30

4 Interest and similar income

Interest receivable:		
Listed investments	**4·0**	4·3
Short term deposits	**21·7**	17·3
	25·7	21·6
Interest payable:		
Bank loans and overdrafts:		
Repayable within five years	**(9·7)**	(6·7)
Other loans:		
Repayable after five years	**(·4)**	(·4)
Repayable within five years	**(·1)**	(·1)
	(10·2)	(7·2)
	15·5	14·4

Notes relating to the accounts

5 Taxation

	1988 £m	1987 £m
The charge on the profit of the year consists of:		
UK corporation tax at 35%	**72·4**	73·7
Deferred taxation	**(3·2)**	(2·5)
Relief for overseas taxation	**(·5)**	(3·6)
UK taxation	**68·7**	67·6
Overseas taxation	**5·9**	8·4
Overseas deferred taxation	**2·7**	1·3
Share of taxation of related companies	**·8**	·1
	78·1	77·4
Unprovided deferred taxation in respect of the year:		
Capital allowances	**(2·9)**	5·5
Capital gains taxation	**6·6**	3·5
Other items	**2·2**	(·3)
	5·9	8·7

6 Extraordinary profit after taxation

	1988 £m	1987 £m
Profit on disposal of subsidiary and related companies	**10·8**	–
Provision for loss on disposal of businesses	**(8·5)**	–
	2·3	–
Taxation (including deferred taxation of £0·7m)	**(·9)**	–
	1·4	–

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders £145·9m (1987 £163·8m) is dealt with in the accounts of the parent company.

8 Dividends

		1988 £m	1987 £m
Interim paid of 3·1p per share		**28·6**	25·8
Final proposed of 5·7p per share		**52·6**	47·8
	8·8p	**81·2**	73·6

9 Earnings per share

Earnings per share are based on 921·7m (1987 841·2m) average ordinary shares in issue, weighted on a time basis, and profit before extraordinary items of £188·3m (1987 £163·8m).

The effect on earnings per share of the exercise of outstanding options by directors and employees into ordinary shares of the company would not be material.

Notes relating to the accounts

■ *10 Intangible fixed assets*

Patents, trade marks and other product rights acquired.

	Group £m	Parent £m
Cost		
At 31st March 1987	5·7	5·2
Additions	1·5	1·5
At 31st March 1988	7·2	6·7
Depreciation		
At 31st March 1987	·6	·5
Depreciation for year	·5	·5
At 31st March 1988	1·1	1·0
Net book value at 31st March 1988	6·1	5·7

■ *11 Tangible fixed assets*

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
(a) Group					
Cost or valuation					
At 31st March 1987	370·1	137·4	342·5	31·8	881·8
Currency adjustments	(5·9)	(1·9)	(3·6)	(·1)	(11·5)
Additions	30·1	19·9	62·7	11·3	124·0
Subsidiaries acquired	2·2	·5	1·4	—	4·1
Disposals: subsidiary	(3·9)	(2·2)	(·9)	(·1)	(7·1)
other	(11·7)	(5·8)	(15·6)	(·2)	(33·3)
Reclassifications	7·0	11·6	6·1	(24·7)	—
At 31st March 1988	387·9	159·5	392·6	18·0	958·0
Depreciation					
At 31st March 1987	59·3	59·1	148·3	—	266·7
Currency adjustments	(·7)	(·7)	(1·5)	—	(2·9)
Depreciation for year	6·6	14·2	32·8	—	53·6
Subsidiaries acquired	·1	·3	1·0	—	1·4
Disposals: subsidiary	(1·4)	(1·7)	(·7)	—	(3·8)
other	(1·9)	(3·8)	(11·3)	—	(17·0)
At 31st March 1988	62·0	67·4	168·6	—	298·0
Net book value at 31st March 1988	325·9	92·1	224·0	18·0	660·0

Notes relating to the accounts

11 *Tangible fixed assets (continued)*

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
(b) Parent					
Cost or valuation					
At 31st March 1987	66·5	107·9	85·4	17·5	277·3
Additions	2·3	15·1	13·6	2·2	33·2
Disposals	(·1)	(4·0)	(2·3)	—	(6·4)
Reclassifications and transfers	2·4	11·3	1·0	(15·0)	(·3)
At 31st March 1988	71·1	130·3	97·7	4·7	303·8
Depreciation					
At 31st March 1987	17·7	48·5	37·1	—	103·3
Depreciation for year	1·9	10·8	9·0	—	21·7
Disposals	(·1)	(2·7)	(1·3)	—	(4·1)
Transfers	—	·1	—	—	·1
At 31st March 1988	19·5	56·7	44·8	—	121·0
Net book value at 31st March 1988	51·6	73·6	52·9	4·7	182·8

	Group		**Parent**	
	1988 £m	1987 £m	**1988 £m**	1987 £m
Net book value of land and buildings comprises:				
Land	**61·8**	57·6	**2·4**	2·3
Freehold property	**182·7**	180·1	**45·9**	43·2
Long leasehold (more than 50 years unexpired)	**32·9**	31·0	**2·1**	2·1
Short leasehold	**48·5**	42·1	**1·2**	1·2
	325·9	310·8	**51·6**	48·8
Net book value of tangible fixed assets under the historical cost convention	**652·6**	607·0	**181·7**	172·8
Analysis of cost or valuation:				
Cost	**930·7**	853·2	**293·1**	266·6
Independent valuation 1958	**9·6**	9·6	**9·6**	9·6
1959	**·1**	·2	**—**	—
1965	**16·5**	17·7	**—**	—
Directors' valuation 1971	**1·1**	1·1	**1·1**	1·1
	958·0	881·8	**303·8**	277·3

As stated in the directors' report, an independent valuation of UK shop properties was undertaken as at 1st January 1986 and revealed a surplus of £326m which has not been incorporated into the accounts.

Notes relating to the accounts

12 *Fixed assets—investments*

	Group Related companies £m
Share of net tangible assets at 31st March 1987	4·9
Share of results for the year	(·8)
Dividends paid	(·3)
Disposals	·1
Currency adjustments	(·7)
Share of net tangible assets at 31st March 1988	3·2

The cost of investments in related companies is £0·5m (1987 £7·0m).

	Parent			
	Shares in subsidiaries £m	Loans to subsidiaries £m	Shares in related companies £m	Total £m
Cost				
At 31st March 1987	189·1	312·0	7·0	508·1
Additions	7·5	6·1	—	13·6
Repayments and disposals	(4·7)	(7·6)	(6·5)	(18·8)
Currency adjustments	—	(41·0)	—	(41·0)
At 31st March 1988	191·9	269·5	·5	461·9
Provision				
At 31st March 1987	122·9	158·9	3·5	285·3
Movement	3·4	(29·0)	(3·5)	(29·1)
At 31st March 1988	126·3	129·9	—	256·2
Net book value at 31st March 1988	65·6	139·6	·5	205·7

The list of principal companies shown on pages 36 and 37 forms part of this note.

Notes relating to the accounts

13 Stocks

	Group 1988 £m	Group 1987 £m	Parent 1988 £m	Parent 1987 £m
Manufacturing:				
Raw materials	**28·9**	29·8	**18·4**	17·1
Work in progress	**18·5**	21·0	**14·3**	15·9
Finished goods	**32·5**	30·6	**11·8**	9·5
	79·9	81·4	**44·5**	42·5
Retailing	**332·6**	349·9	**106·3**	114·3
	412·5	431·3	**150·8**	156·8

14 Debtors

	Group 1988 £m	Group 1987 £m	Parent 1988 £m	Parent 1987 £m
Falling due within one year:				
Trade debtors	**118·9**	111·7	**75·4**	66·4
Owed by group companies	**—**	—	**278·5**	261·0
Owed by related companies	**·9**	1·8	**·9**	1·8
Other debtors	**25·9**	15·5	**4·7**	7·2
Prepayments and accrued income	**21·5**	17·8	**10·2**	6·4
	167·2	146·8	**369·7**	342·8
Falling due after more than one year:				
Advance corporation tax	**17·5**	17·7	**17·5**	17·7
Other debtors	**4·0**	2·5	**2·8**	1·7
	188·7	167·0	**390·0**	362·2

15 Current assets—investments

	Group 1988 £m	Group 1987 £m	Parent 1988 £m	Parent 1987 £m
Listed investments	**59·8**	35·0	**59·7**	34·9
Short term deposits	**182·2**	143·6	**149·5**	117·3
	242·0	178·6	**209·2**	152·2
Market value of investments listed on The Stock Exchange	**59·8**	34·9	**59·7**	34·8

Notes relating to the accounts

■ 16 *Creditors: amounts falling due within one year*

	Group		Parent	
	1988	1987	**1988**	1987
	£m	£m	**£m**	£m
Bank loans and overdrafts	**72·4**	65·2	**49·0**	34·6
Bills of exchange	**3·9**	7·1	**·4**	·1
Trade creditors	**166·6**	160·1	**137·0**	123·5
Due to group companies	**—**	—	**43·3**	38·6
Due to related companies	**—**	·2	**—**	·2
Corporation tax	**53·4**	52·5	**24·2**	27·5
Advance corporation tax	**27·3**	28·2	**27·3**	28·2
Taxation and social security (including value added and sales taxes)	**17·4**	18·7	**14·2**	14·2
Other creditors	**69·4**	64·8	**29·4**	24·2
Accruals	**28·6**	22·8	**7·6**	5·3
Proposed dividend	**52·6**	47·8	**52·6**	47·8
	491·6	467·4	**385·0**	344·2

Overdrafts of certain subsidiaries amounting to £1·3m at 31st March 1988 (1987 £3·8m) were secured on the assets of those subsidiaries.

■ 17 *Creditors: amounts falling due after more than one year*

Unsecured loans:				
7¾% stock 1988/93	**5·7**	5·7	**5·7**	5·7
Foreign currency bank loans	**·6**	·8	**—**	—
Due to group companies	**—**	—	**21·6**	21·5
Other creditors	**3·8**	5·9	**—**	—
	10·1	12·4	**27·3**	27·2

Creditors are repayable within 5 years, except for the 7¾% stock which is repayable on or before 30th September 1993.

Notes relating to the accounts

■ *18 Provisions for liabilities and charges—deferred taxation*

	Group £m	Parent £m
At 31st March 1987	17·3	17·9
UK	(3·2)	(1·8)
Overseas	2·5	—
Extraordinary item	·7	·7
Currency adjustments	1·3	—
Acquisitions	(·1)	—
At 31st March 1988	18·5	16·8

	1988 £m	1987 £m	**1988 £m**	198 £
Analysis of provision:				
Capital allowances	**24·1**	28·4	**14·0**	15·
Other items:				
UK	**2·3**	·8	**2·8**	2·
Overseas	**(7·9)**	(11·9)	**—**	-
	18·5	17·3	**16·8**	17·
Unprovided deferred taxation:				
Capital allowances	**50·3**	53·2	**26·6**	31·
Capital gains taxation	**32·5**	29·2	**·5**	·
Other items	**(·3)**	(2·5)	**(·3)**	(1·
	82·5	79·9	**26·8**	30·

Unprovided deferred taxation on capital gains is calculated at 35% (1987 30%) and is based on the provisions of the 1988 Finance B

Notes relating to the accounts

19 *Share capital*

	1988 £m	1987 £m
Ordinary shares of 25p each:		
Authorised	**300·0**	300·0
Allotted, called up and fully paid	**230·7**	230·0

Details of ordinary shares allotted during the year are as follows:

	Scrip dividends	Profit sharing scheme	Option schemes	Total
Number of shares allotted (million)	2·4	·5	·1	3·0
	£m	£m	£m	£m
Nominal value	·6	·1	—	·7
Share premium	5·9	1·5	·1	7·5
Consideration	6·5	1·6	·1	8·2

During the year shareholders approved a resolution permitting them to receive their dividends in shares. Approximately 30% of shareholders owning 9% of shares, elected to take part of their dividends by this means.

A profit sharing scheme enables qualifying employees to acquire ordinary shares at market price from a cash bonus. At 31st March 1988 2,418,840 shares were held in trust for 5,889 employees.

Under a savings-related scheme options may be granted enabling employees with over five years service to subscribe for ordinary shares at approximately 90% of market price. At 31st March 1988 options exercisable from 1988 to 1995 at between 86·5p and 276p per share are outstanding in respect of 3,461,256 shares.

Under an executive share option scheme certain senior executives are granted options to subscribe for ordinary shares. At 31st March 1988 options are outstanding as follows:

1,935,000 shares at 195p exercisable from August 1988 to August 1995
675,000 shares at 307p exercisable from June 1990 to June 1997
365,000 shares at 219p exercisable from December 1990 to December 1997

2,975,000

A maximum of 80 million ordinary shares is available for these schemes.

Notes relating to the accounts

20 Reserves

Group

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Share of related companies £m	Total £m
At 31st March 1987	·1	6·9	678·3	(2·1)	683·2
Profit retained	—	—	109·6	(1·1)	108·5
Goodwill less minority share (£1·7m)	—	—	(10·9)	—	(10·9)
Currency adjustments	—	—	(19·4)	(·7)	(20·1)
Transfers	—	(·6)	(6·0)	6·6	—
Issue of shares	7·5	—	—	—	7·5
Share issue expenses	(·2)	—	—	—	(·2)
At 31st March 1988	7·4	6·3	751·6	2·7	768·0

Parent

	Share premium account £m	Profit and loss account £m	Total £m
At 31st March 1987	·1	453·4	453·5
Profit retained	—	64·7	64·7
Currency adjustments	—	(41·0)	(41·0)
Issue of shares	7·5	—	7·5
Share issue expenses	(·2)	—	(·2)
At 31st March 1988	7·4	477·1	484·5

21 Pensions

Full actuarial valuations of the group's principal UK pension schemes were carried out as at 1st April 1986 by Messrs. Bacon & Woodrow, the schemes' consulting actuaries. Rates of contributions, together with existing assets of the schemes and income from future investments, are expected to be sufficient to meet the cost of present benefits and to provide for future pension increases on the same basis as those granted in previous years.

Other group pension arrangements are not material.

Notes relating to the accounts

22 *Commitments*

	Group 1988 £m	Group 1987 £m	Parent 1988 £m	Parent 1987 £m
(a) Future capital expenditure approved by the directors and not provided for in these accounts is as follows:				
Contracts placed	**30·9**	34·1	**11·1**	16·7
Contracts not placed	**31·3**	11·4	**28·5**	2·4
	62·2	45·5	**39·6**	19·1

(b) Commitments under operating leases:
Annual commitments under operating leases at 31st March 1988 are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m	Parent Other £m
Expiring:				
Within one year	2·7	·4	–	–
Over one year and less than five years	5·9	2·7	–	1·4
Over five years	40·6	·1	1·8	–
	49·2	3·2	1·8	1·4

(c) A contingent liability of up to US $33·75m (1987 $45m) is payable in instalments as deferred consideration for the Flint business, dependent upon sales levels of a range of Flint products over annual periods ending on 31st December 1990. An amount of US $3·7m relating to the 1987 instalment has been written off as goodwill.

23 *Staff numbers and costs*

	1988	1987
The average number of persons employed by the group during the year was as follows:		
Industrial Division	**9,811**	10,657
Retail Division	**61,083**	57,737
Central	**1,179**	1,318
Total employees	**72,073**	69,712
The aggregate payroll cost was as follows:	**£m**	£m
Wages and salaries (including profit earning bonus of £17·0m (1987 £18·2m))	**451·0**	391·4
Social security costs	**42·6**	34·3
Other pension costs	**14·3**	10·4
	507·9	436·1

The 30 African employees of our South African company are paid above the Supplemented Living Level. Further information is available from the Secretary.

Notes relating to the accounts

24 Directors' shareholdings

The interests of directors and their families in the share capital of the company at 31st March are shown below. They are all beneficial interests.

Included under 'ordinary shares' are those held in trust under the company's profit sharing scheme. Details of this scheme and the company's share option schemes are referred to in note 19 on page 31. No director holds any loan capital.

	Ordinary shares		Ordinary shares under option			
			Executive scheme		Savings scheme	
	1988	1987	**1988**	1987	**1988**	1987
K Ackroyd	**20,048**	18,104	**137,500**	115,000	**5,211**	5,211
Sir James Blyth	**5,000**	–*	**365,000**	–*	**3,654**	–*
Dr E E Cliffe	**15,494**	13,628	**137,500**	115,000	**7,296**	7,296
P H Courtney	**13,427**	11,794	**115,000**	100,000	**5,879**	5,879
R N Gunn	**20,169**	18,000	**225,000**	225,000	**5,161**	5,161
A H Hawksworth	**8,355**	6,727	**90,000**	75,000	**4,822**	4,822
G M Hourston	**14,771**	12,730	**110,000**	90,000	**4,396**	4,396
A B Marshall	**2,543**	2,500	**–**	–	**–**	–
The Rt Hon Sally Oppenheim-Barnes, PC	**2,186**	2,149	**–**	–	**–**	–
I M G Prosser	**1,030**	1,000	**–**	–	**–**	–
Sir Peter Reynolds	**1,546**	1,500	**–**	–	**–**	–
T G Richardson	**5,940**	4,485	**100,000**	90,000	**5,228**	5,228
M F Ruddell	**2,144**	1,466	**90,000**	75,000	**3,627**	3,627
D A G Sarre	**2,500**	2,500	**–**	–	**–**	–
G R Solway	**14,183**	10,908	**90,000**	90,000	**7,770**	9,596
B H C Theobald	**9,702**	9,500	**100,000**	90,000	**5,161**	5,161

*at date of appointment.

Directors' holdings at 9th June 1988 are unchanged.

Notes relating to the accounts

25 Remuneration of directors and senior UK employees

	1988 £000	1987 £000
The following remuneration of directors and senior employees is included in aggregate payroll cost.		
(i) Remuneration of directors:		
Fees	**48**	48
Other remuneration	**1,421**	1,071
	1,469	1,119

(ii) The remuneration of the chairman, who was also the highest paid director, was £194,000 (1987 £163,000).

(iii) An analysis of remuneration of directors (except where duties were discharged mainly outside the UK) and UK employees earning over £30,000 in the year, is shown below:

	Numbers Directors 1988	Directors 1987	Employees 1988	Employees 1987
£190,001 – 195,000	**1**	–		
£160,001 – 165,000	**–**	1		
£110,001 – 115,000	**1**	–		
£105,001 – 110,000	**2**	–		
£85,001 – 90,000	**2**	2		
£75,001 – 80,000	**2**	1		
£70,001 – 75,000	**2**	1		
£65,001 – 70,000	**–**	2	**1**	–
£60,001 – 65,000	**–**	2	**–**	1
£55,001 – 60,000	**–**	–	**4**	–
£50,001 – 55,000	**–**	–	**10**	8
£45,001 – 50,000	**–**	1	**12**	14
£40,001 – 45,000	**–**	–	**34**	21
£35,001 – 40,000	**–**	–	**42**	38
£30,001 – 35,000	**–**	–	**89**	53
£25,001 – 30,000	**1**	–		
£15,001 – 20,000	**1**	1		
£10,001 – 15,000	**4**	4		

Auditors' report

to the members of The Boots Company PLC

We have audited the accounts on pages 18 to 35 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31st March 1988 and of the profit and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PEAT MARWICK McLINTOCK
Chartered Accountants, Birmingham.

9th JUNE 1988.

Principal companies

		Percentage held by parent	Percentage held by subsidiaries	Principal activities
	Parent			
	The Boots Company PLC			Research, manufacturing and marketing of pharmaceuticals and consumer products
	Subsidiaries (incorporated in Great Britain)			
	Boots International Ltd.	100		Management company
	Boots Optical Services Ltd.		100	Manufacturing opticians
	Boots Opticians Ltd.		100	Registered opticians
	Boots Pure Drug Co. Ltd.	100		Management company
	Boots The Chemists Ltd.	100		Retail chemists
	Childrens World Ltd.	100		Retailing of goods and services for children
	Clement Clarke International Ltd.		100	Precision instrument designers and manufacturers
	Crookes Healthcare Ltd.	100		Marketing consumer products
	Farley Health Products Ltd.	100		Manufacturing consumer products
	John Weiss & Son Ltd.		100	Surgical instrument distributors
	Optrex Ltd.	100		Marketing consumer products
	Timothy Whites PLC	100		Property holding
	Whites Property Co. Ltd.		100	Property holding
	Subsidiaries (incorporated overseas)			Activities refer to pharmaceutical and consumer products unless otherwise indicated
Australia	The Boots Company (Australia) Pty. Ltd.	100		Manufacturing and marketing
Belgium	The Boots Company (Belgium) S.A.		100	Marketing
Canada	Boots Drug Stores (Holdings) Ltd.		100	Retail chemists
	Flint Laboratories (Canada) Ltd.		100	Marketing pharmaceuticals
France	Laboratoires Boots—Dacour S.A.	92·5		Manufacturing and marketing
	Beauté, Hygiène et Soins, S.A.	100		Retailing of cosmetics and toiletries
Holland	The Boots Company (Holland) B.V.	100		Marketing
Ireland	The Boots Company (Ireland) Ltd.	100		Marketing
Italy	Boots-Formenti S.p.A.	55		Marketing
Kenya	The Boots Company (Kenya) Ltd.		100	Manufacturing and marketing
Malaysia	Boots Trading (Malaysia) Sdn. Bhd.	100		Marketing
	Optrex (Malaya) Sdn. Bhd.		100	Marketing
New Zealand	Boots The Chemists (New Zealand) Ltd.	100		Retail chemists and marketing
Pakistan	The Boots Company (Pakistan) Ltd.	56·5		Manufacturing and marketing
Philippines	The Boots Company (Philippines) Inc.	100		Marketing

Principal companies

		Percentage held by parent	Percentage held by subsidiaries	Principal activities
Singapore	The Boots Company (Far East) Pte. Ltd.	100		Marketing
South Africa	The Boots Company (South Africa) (Pty.) Ltd.	100		Manufacturing and marketing
Spain	Laboratorios Liade S.A.	100		Manufacturing and marketing
Thailand	The Boots Company (Thailand) Ltd.	100		Marketing
US	The Boots Company (USA) Inc.	100		Clinical development, manufacturing and marketing of pharmaceuticals
	Boots Puerto Rico, Inc.		100	Manufacturing pharmaceuticals
	Clement Clarke, Inc.		100	Precision instrument distribution and optical lens manufacturing
West Germany	Kanoldt Arzneimittel GmbH		95	Manufacturing and marketing pharmaceuticals

All shares held are ordinary shares. In addition the group owns 100% of the preferred shares in Boots Drug Stores (Canada) Ltd., a subsidiary of Boots Drug Stores (Holdings) Ltd., and 100% of the preference shares in Crookes Healthcare Ltd.

	Related companies	Issued share capital	Percentage held	Principal activities
Great Britain	Preservative Systems Ltd.	20,000 ordinary shares of £1 paid	50	Manufacturing and marketing of preservative systems
India	The Boots Company (India) Ltd.	8,100,000 ordinary shares of 10 rupees paid	40	Manufacturing and marketing
Nigeria	The Boots Company (Nigeria) Ltd.	6,000,000 ordinary shares of 50 kobo fully paid	40	Manufacturing and marketing
Yugoslavia	OOUR Boots-Galenika		49	Manufacturing pharmaceuticals

All the companies operate principally in the country of incorporation.

Group financial record

	1988 £m	1987 £m	1986 £m	1985 £m	1984 £m
Turnover	**2697·1**	2351·7	2126·1	2033·1	1832·8
Profit on ordinary activities before taxation	**267·2**	242·8	210·4	190·3	165·1
Taxation	**(78·1)**	(77·4)	(72·8)	(76·6)	(59·8)
Profit on ordinary activities after taxation	**189·1**	165·4	137·6	113·7	105·3
Minority interests	**(·8)**	(1·6)	(1·7)	(1·0)	(·9)
	188·3	163·8	135·9	112·7	104·4
Extraordinary items	**1·4**	—	—	21·2	23·9
Profit attributable to shareholders	**189·7**	163·8	135·9	133·9	128·3
Dividends	**(81·2)**	(73·6)	(51·8)	(45·2)	(40·0)
Profit retained	**108·5**	90·2	84·1	88·7	88·3
Balance sheets					
Fixed assets	**666·1**	620·2	574·7	504·3	453·2
Investments	**3·2**	4·9	2·7	3·7	4·4
Net current assets	**358·1**	319·1	284·4	303·7	267·5
Other creditors	**(10·1)**	(12·4)	(12·0)	(12·8)	(13·3)
Provisions for liabilities and charges	**(18·5)**	(17·3)	(18·8)	(25·2)	(21·7)
Net assets	**998·8**	914·5	831·0	773·7	690·1
Represented by:					
Shareholders funds	**998·7**	913·2	827·5	770·5	687·4
Minority interests	**·1**	1·3	3·5	3·2	2·7
	998·8	914·5	831·0	773·7	690·1
Earnings per share	**20·4p**	19·5p	18·6p	15·5p	14·4p
Dividend per share	**8·8p**	8·0p	7·1p	6·2p	5·5p
Dividend cover	**2·3**	2·2	2·6	3·0	3·2
Profit on ordinary activities before taxation as % of net assets	**26·8**	26·6	25·3	24·6	23·9
Profit on ordinary activities after taxation as % of net assets	**18·9**	18·1	16·6	14·7	15·3

The book value of the group's property which amounts to 32·6% of net assets is, in the opinion of the directors, substantially below its current value (see page 16 for details of the independent valuation of certain UK shop properties).

1988 results are affected by the change to coterminous accounting by overseas companies. See note 2 on page 22 for further details.

Divisional financial record

	1988 £m	1987 £m	1986 £m	1985 £m	1984 £m
Industrial Division					
***Turnover**					
UK (including exports)	**323·1**	284·7	244·5	226·1	205·4
Overseas	**296·5**	213·1	194·7	187·6	153·5
Intra-divisional	**(41·3)**	(30·5)	(34·3)	(30·7)	(22·0)
	578·3	467·3	404·9	383·0	336·9
*Turnover of Industrial Division includes sales to Retail Division.					
Profit on ordinary activities before taxation					
UK	**46·8**	54·3	40·3	34·6	36·7
Overseas	**67·8**	31·3	27·0	30·0	23·8
Share of results of related companies	**–**	(1·1)	(·7)	(·4)	1·8
	114·6	84·5	66·6	64·2	62·3
Capital expenditure	**25·9**	26·7	47·8	40·6	23·1
Retail Division					
Turnover					
UK	**1980·2**	1799·6	1644·9	1564·6	1456·9
Overseas	**273·2**	205·4	187·1	194·3	146·2
	2253·4	2005·0	1832·0	1758·9	1603·1
Profit on ordinary activities before taxation					
UK	**130·8**	124·8	112·0	107·1	82·8
Surplus on disposal of properties	**21·3**	21·0	19·3	8·9	16·5
Total UK	**152·1**	145·8	131·3	116·0	99·3
Overseas	**(6·7)**	(1·4)	(·6)	1·6	(·1)
	145·4	144·4	130·7	117·6	99·2
Capital expenditure	**98·1**	72·4	55·3	52·4	36·8

Divisional directors

Industrial Divisional Board
E E Cliffe, DPhil, FIBiol, FRSC
Managing Director (Chairman)
E C Bosworth
J M Briggs, CEng, FIMechE
R J Glaister
B Lessel, PhD, FIBiol
G A McAlpine
T G Richardson
G R Solway
G A Turnbull, MRPharmS
J J H Watson
K R Whitesides
J H Wilson
D J Winter, *Secretary*

Retail Divisional Board
K Ackroyd, FRPharmS
Managing Director (Chairman)
J W Berry
N Burton, FRICS, FSVA
P Dobson, MRPharmS
G M Hourston, FRPharmS
P Joyce, MRPharmS
A R Ripley, TD, DL
M F Ruddell
S G Russell
D A R Thompson, FCA
B E Whalan
J D Wykes, MRPharmS
I A Hawtin, *Secretary*

Shareholders

Shareholdings range	Number	%	Total Holding	%
1 — 500	29,169	23·2	7,897,026	·9
501 — 1,000	27,546	21·9	20,829,205	2·3
1,001 — 10,000	64,591	51·3	176,457,951	19·1
10,001 — 100,000	3,910	3·1	90,875,351	9·8
100,001 — 1,000,000	533	0·4	174,520,712	18·9
Over 1,000,000	124	0·1	452,331,181	49·0
	125,873		922,911,426	

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THE BOOTS COMPANY PLC *Nottingham NG2 3AA*